Siebens

OIL & GAS LTD.

Annual Report 1977

AND SUBSIDIARY COMPANIES

1977 ANNUAL REPORT

Company Profile

Siebens Oil & Gas Ltd. is a 98% Canadian-owned Company engaged in the exploration and development of oil, gas and mineral properties. Since it became publically owned in 1970, the Company has balanced an aggressive Western Canadian Exploration program with a continuing interest in foreign and frontier areas. With the added impetus of the merger with Hudson's Bay Company Resources Limited in 1973, the Company has exhibited excellent annual growth.

Annual Meeting

The Annual Meeting of Shareholders will be held on February 23, 1978 at 10:00 a.m. in the Bonavista room at the Calgary Inn, 320 - 4th Avenue S.W., Calgary, Alberta. A formal notice of this meeting, Information Circular and Form of Proxy are being mailed to shareholders with this report.

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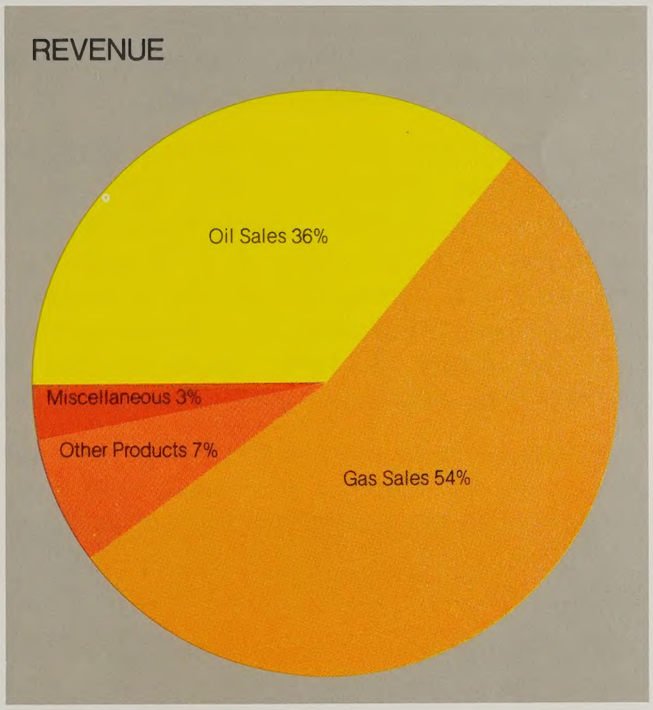
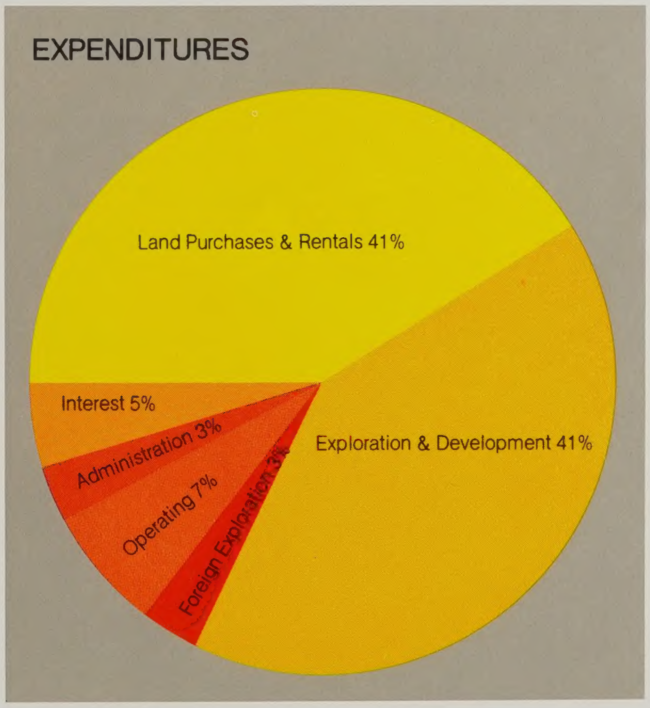




TO THE SHAREHOLDERS

Once again, I am very pleased to report a year of significant growth for your Company. As predicted last year, major increases occurred in gross revenue, cash flow and net earnings, mainly due to increased sales of natural gas but also because of escalating oil and gas prices. The Company's net reserves of natural gas were increased by 68 billion cubic feet to 333 Bcf, some 26% higher than reported last year. Oil reserves have been increased fractionally.

The Company can report record financial performance for the year ended October 31, 1977 with net earnings amounting to $14,379,000 ($1.56 per share) as compared to $10,646,000 ($1.16 per share) in 1976, a 35% increase. There was a 41% increase in cash flow from operations to $22,766,000 ($2.47 per share) as compared to $16,117,000 ($1.75 per share) in 1976. Gross revenue totalled $27,179,000, up 44% from $18,861,000 in the prior year.

The Company spent $26,325,000 in 1977 in the search for new supplies of oil and gas, an increase of 46% over 1976 expenditures. Approximately 97% of the Company's expenditures were spent to explore and develop energy resources in Canada, with the balance spent on Foreign Exploration.

The impetus provided by recently announced oil discoveries in the West Pembina area and accelerated exploration for natural gas in the Deep Basin and Foothills of Alberta and British Columbia have moved prices for exploratory lands in these areas to record highs. Competition amongst exploration companies to participate in these exciting plays has made it difficult for those firms with limited financial resources to acquire a land position by means of Provincial Land Sales. However, your Company, through its increased cash flow and by participating in joint ventures with others, has been successful in acquiring over 430,000 gross acres in Western Canada this past year. In excess of $10 million was spent by Siebens last year on land acquisitions. As a consequence of the higher land prices prevalent today, the Company's land inventory in Western Canada is becoming much more valuable. Any assessment of the Company's net worth must take into account today's higher average land prices, the broad disposition of the Siebens Mineral Title Lands as well as our considerable inventory held in Western Canada and the frontier areas.

The Company had an interest in a total of 334 wells drilled in Western Canada during fiscal 1977. Of these, 184 exploratory and development wells were drilled or participated in by Siebens while 150 wells were drilled by others on our lands at no cost to the Company. There are few companies in the Industry which can report exposure and involvement of this magnitude in the Western Canada sedimentary basin. The Company expects to equal or exceed these drilling figures during the coming year as Industry continues to explore for and develop new petroleum reserves at record levels.

Siebens' exposure in the frontier areas of Canada will become increasingly important as exploratory drilling continues in both the Beaufort Sea and the Arctic Islands. Planned drilling programs for 1978 by various operators in these areas are located on or near Company interest lands and could, if successful, provide the Company with a future source of revenue.

The Government of Newfoundland recently enacted land regulations allowing holders of offshore Federal permits to acquire provincial permits covering lands in dispute between the two governments. While this procedure may allow drilling to commence off the Labrador Coast in the summer of 1978, an expensive environmental program covering Eastern Arctic waters, proposed by the Federal Government but funded mostly by Industry, will certainly delay exploration in this area for 3 to 4 years. Government's instigation of this program despite the opinions of Industry, which would prefer to conduct environmental surveys more rapidly, is another example of government bureaucracy interfering with the free enterprise system.

At the time of writing, the Company is drilling a projected 13,000 foot wildcat well located offshore Socotra Island, near the entrance to the Gulf of Aden. Drilling results will not be known for 30 to 60 days but a successful well could have significant consequences. With another deep well being drilled on Siebens (U.K.) interest lands offshore Germany and the possibility of three farmout wells being drilled in U.K. waters, 1978 could be a time of important news for the Company.

The intensive and successful drilling activities of Industry during the past several years in Alberta and British Columbia has produced what has been termed a "gas bubble" or surplus in natural gas reserves. With producers unable to negotiate new sales contracts for their shut-in gas reserves, the "gas bubble" has grown into a "gas balloon" and next year could approach even larger dimensions. It is important that the Provincial and Federal Governments and their various regulatory bodies recognize the immense size of the current gas surplus, in order that exportation of Canada's excess reserves can be implemented as soon as possible. Not only would the sale of surplus gas to the United States help maintain cash flow for the producers, it would assist Canada's balance of payments which recently have deteriorated due to the costly burden of imported foreign oil.

Forthcoming Year

As mentioned above, it is estimated exploration and development drilling on Company lands during 1978 will equal or exceed last year's program. Emphasis will be placed on finding new reserves in the Deep Basin and Foothills of Western Canada where the potential exists for large accumulations while at the same time maintaining an adequate program in the shallow gas areas to sustain and increase our reserve base.

Increasing gas production and rising product prices will again contribute to the financial growth of the Company. Based on information currently available, it is predicted the Company's consolidated gross revenue for the period ending October 31, 1978 will increase 33% to $36,000,000, cash flow will increase 36% to $31,000,000 ($3.35 per share) and net earnings will increase 39% to $20,000,000 ($2.16 per share).

Expenditures for oil and gas exploration will be the largest in the Company's history totalling $35,000,000, with 85% of these funds expected to be spent in Canada and the remainder in foreign areas. This will represent an over-all increase of 33% over 1977 spending.

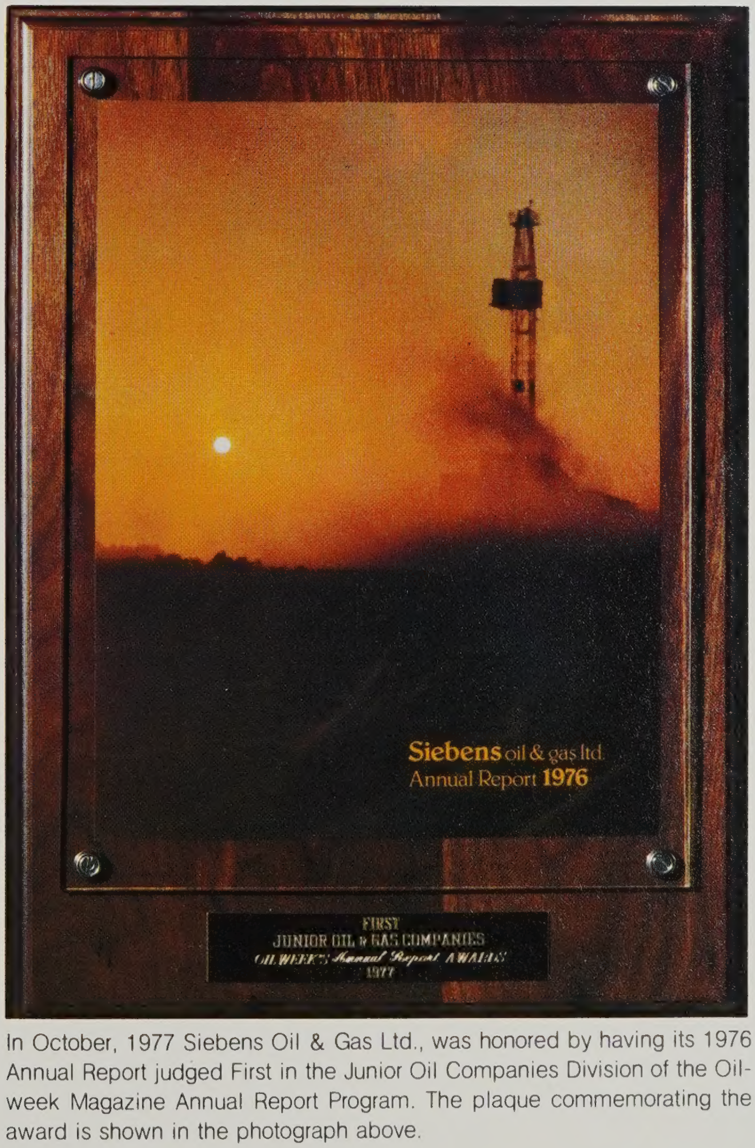
To the 52 Company employees, whose efforts, loyalty and diligence have contributed so much to the Company's growth, the Board extends its sincere thanks and appreciation.

On Behalf of the Board

Wm. W. Siebens

W. W. Siebens
President

December 16, 1977



In October, 1977 Siebens Oil & Gas Ltd., was honored by having its 1976 Annual Report judged First in the Junior Oil Companies Division of the Oilweek Magazine Annual Report Program. The plaque commemorating the award is shown in the photograph above.


BISTCHO LAKE
LAKE ATHABASCA
LAKE CLAIRE
PEACE RIVER
ATHABASCA OIL SANDS
ALBERTA
Fort St. John
MONIAS
Peace River
LESSER SLAVE LAKE
TOWER
PRIMROSE
WANDERING RIVER
BRITISH
COLUMBIA
N.W. FOOTHILLS PARTICIPATION AREA
ATHABASCA RIVER
NORTH SASKATCHEWAN RIVER
Edmonton
LLOYDMINSTER
HIGHVALE
HAYTER
METISKOW
Red Deer
CAROLINE
RED DEER RIVER
BOW RIVER
Calgary
JENNER
SUFFIELD (BLOCK B)
Medicine Hat
Lethbridge
ALBERTA - N.E. BRITISH COLUMBIA
Successful Wells Drilled By Siebens
Successful Wells Drilled By HBOG & Others
Siebens Working Interest Lands
General Area of Siebens Mineral Title Holdings
SCALE
0 30 60miles
0 30 60 90km.

CANADIAN EXPLORATION

YEAR IN REVIEW

Siebens Oil & Gas Ltd. has been successful in directing its exploration emphasis toward gaining representation in the Deep Basin and Foothills areas of Alberta and British Columbia where the potential for greater reserves exist. In prior years, our concentration on exploration and development of shallow gas sand plays resulted in substantial shut-in reserves. During the existing time lag before economic return is realized on shallow gas reserves, emphasis will be placed by the Company on deeper, higher risk projects.

This attitude, combined with our continuing increase in cash flow, has caused Siebens to allocate more monies toward land acquisitions than ever before. A total of $10,209,930 was exposed in acquiring varying interests in approximately 436,230 gross acres in Western Canada. Our average net interest in these acquisitions is 38% in Alberta, 32% in British Columbia.

The economic return on oil and gas production has created an unprecedented level of exploratory drilling in Western Canada and an almost vertical escalation of land prices. Siebens has been successful in remaining competitive at land sales by entering into joint ventures which has allowed the Company to spread its total exposure over a maximum number of parcels while limiting its risk on any one. The Company has maintained its selectiveness in areas felt geologically attractive while preserving flexibility in acquiring acreage strategically located to competitor activity.

A review of geographic areas within Canada, other than the Western Provinces, shows the Company again represented in some very attractive plays. Extensive and successful drilling in the Beaufort Sea this past summer on or near acreage in which the Company has a gross overriding royalty is of utmost interest in anticipation of substantial reserves being established. The Company also holds a working interest in certain acreage directly offsetting the drilling program.

In Eastern Canada, the Company is a joint operator of approximately 43,000 acres of land over which an extensive reconnaissance gravity program has been conducted. A further seismic program will be conducted this year and drilling should follow to evaluate what are believed to be very lucrative reef pinnacles.

While shifting the emphasis of its exploration philosophy, the Company still managed to maintain and surpass its drilling program of 1976. A total of 184 gross wells were drilled or participated in during the 12 month period ending October 31, 1977. This expanded drilling program is a direct reflection on our enlarged Exploration staff and has resulted in our net gas reserve position being increased substantially. (See Reserves Section, p. 19).

The adjoining table shows the 184 gross wells to be divided into 90 exploratory and 94 development wells. Our success ratio again exceeded the industry average significantly in that 68% of the exploratory wells and 85% of the development wells were successful.

Hudson's Bay Oil and Gas Company Limited, under its long term option on Siebens Mineral Title acreage, drilled or caused to be drilled a total of 150 wells, a 23% increase over the 122 wells drilled last year. Siebens reserves a 20% lessor's royalty on both oil and gas on these properties.

WELL COMPLETIONS

	Gross Working Interest 1977	Gross Working Interest 1976
Exploratory		
Oil	11	7
Gas	50	47
Dry	29	48
Development		
Oil	14	5
Gas	66	56
Dry	14	1
Total	184	164

	Third Party Completions Oil	Gas	Dry	Total
*HBOG Agreement	48	65	37	150

*Not verified by HBOG

Certain of the areas in which the Company has been successful in acquiring sizeable acreage spreads combined with a successful drilling program are discussed further in the Report.

Development of Siebens Mineral Title Lands

Union Gas Limited recently concluded an agreement with Hudson's Bay Oil and Gas Company Limited whereby Union and HBOG will expend $26 million on exploratory drilling over a three year period to end in May, 1980 to evaluate Siebens' Mineral Title Lands in Alberta. This program could result in the drilling of some 300 wells which will obviously serve to increase the Company's reserve base. In addition, HBOG will continue to drill for its own account on the Title lands.

CANADIAN LAND HOLDINGS

Continued highgrading of our Frontier holdings is the primary reason for the decrease in the Company's acreage holdings. After extensive evaluation, 3,236,718 acres in the Hudson Bay and 129,447 acres in the Northwest Territories have been surrendered to the Federal Government. In Eastern Canada — Offshore and the Arctic Islands, approximately 1 million acres have been either surrendered or converted to royalty interest.

The acreage statistics for Western Canada do not completely reflect the aggressive approach the Company has taken in acquiring lands. The additions have been offset by the conversion of several P & NG Reservations and Permits to lease, in which approximately 50% of the lands were returned to the Crown pursuant to the Regulations.

The Company has taken a more moderate approach towards the political environment in Saskatchewan and acquired an interest in 23,217 gross acres adjacent to the Hayter prospect in Alberta. As well, Siebens has taken a 50% interest in 42,974 gross acres located in Ontario where an interesting pinnacle reef play is developing. An extensive reconnaissance gravity program was conducted on these lands and will be followed by seismic surveys this coming year to delineate drilling prospects.

The Company continues to maintain one of the most attractive land banks within industry.

CANADIAN LAND HOLDINGS

WORKING INTEREST PROPERTIES

Geographical Area	Nature of Interest	Gross Acres 1977	Gross Acres 1976	Net Acres 1977	Net Acres 1976
Alberta	P & NG Reservations	770,358	1,109,741	708,329	1,003,511
	Drilling Reservations	—	14,080	—	5,280
	Permits	7,880	7,880	7,880	7,880
	P & NG Exploratory Licences	245,326	45,266	126,168	31,146
	NG Licences	32,000	32,000	32,000	13,440
	Leases	1,014,482	1,336,252	707,932	662,506
	Mineral Titles	1,603,575	1,603,575	1,603,575	1,603,575
Saskatchewan	Leases	163,824	163,824	66,240	66,240
	Permits	23,217	—	5,804	—
	Mineral Titles	928,354	941,102	928,354	941,102
British Columbia	Permits	378,884	328,345	148,378	92,727
	Leases	49,200	44,949	9,956	5,956
	Drilling Reservations	12,705	—	6,063	—
Manitoba	Mineral Titles	38,869	38,869	38,869	38,869
	Leases	360	360	360	360
Ontario	Leases	42,974	—	21,487	—
Northwest Territories	Permits	—	129,447	—	67,724
Mackenzie Delta-Beaufort Sea	Permits	173,634	302,612	86,817	151,306
Hudson Bay	Permits	—	3,236,718	—	188,700
Eastern Canada — Offshore	Permits	3,816,063	4,359,870	2,559,919	2,714,147
Arctic Islands	Permits	10,572,845	11,189,371	2,642,204	2,797,341
		19,874,550	24,884,261	9,700,335	10,391,810

ROYALTY INTEREST PROPERTIES

Geographical Area	Gross Royalty Acreage 1977	Gross Royalty Acreage 1976
Alberta	474,000	525,756
Saskatchewan	66,524	66,524
British Columbia	212,228	151,439
Hudson Bay	—	3,236,718
Northwest Territories	4,251,436	4,227,983
Beaufort Sea & Liverpool Bay	3,710,269	3,321,671
Arctic Islands	15,137,052	16,720,200
East Coast — Offshore	874,656	874,656
	24,726,165	29,124,947

Suffield

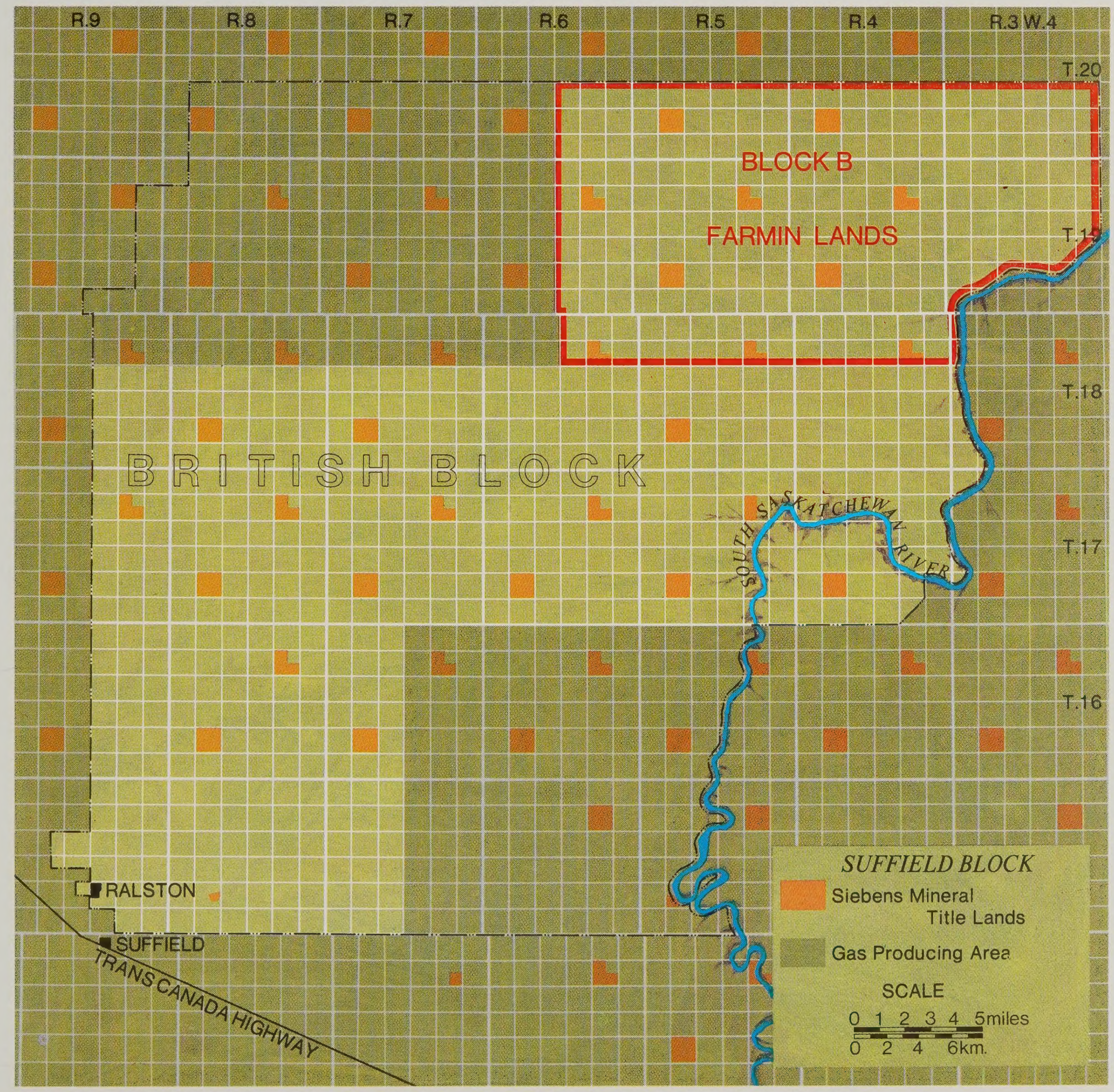
The Company's subsidiary, Cavalier Energy Inc., is a 25% partner in a consortium recently awarded a farmout in Area "B" of the Suffield Block for deep drilling below 2,200 feet, the demarcation of the Second White Specks formation. A program of approximately 300 miles of seismic has been scheduled and a total of 66 wells of varying depths will be drilled prior to November, 1978. The gross acreage to be earned amounts to 129,761 acres.

Of further significance to the Company is the location of ten sections of Siebens Mineral Title lands within the Block "B" which will also be evaluated by the program. The initial wells commenced drilling in November, 1977.

Primrose

The Company participated in the acquisition of 56,320 gross acres within a previously reserved portion of the Primrose Lake Bombing Range. The lands, held as P & NG Exploratory Licences, were acquired for approximately $10,750,000 with Siebens bearing one third of the cost and retaining a similar interest.

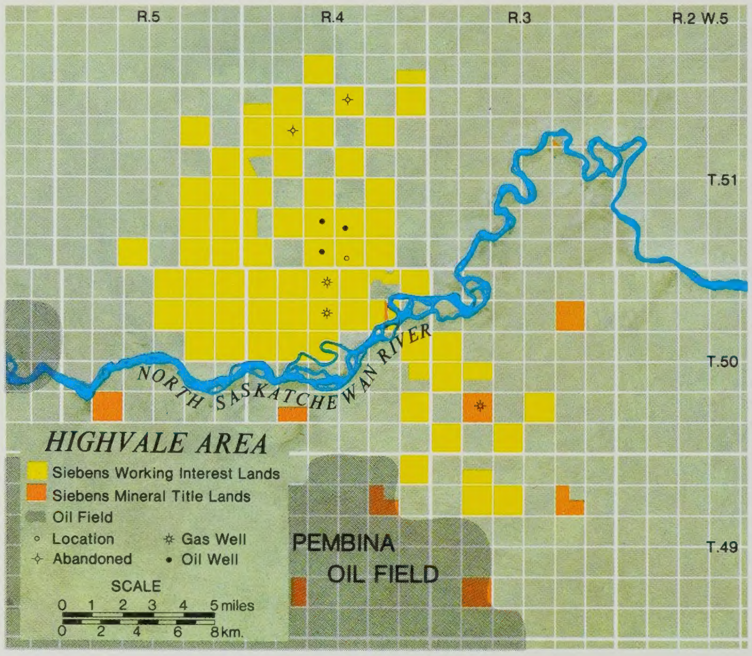
To date, 3 gas wells and 2 dry holes have been drilled. A 75 mile seismic program has been completed and a further 75 miles of data is proposed for early 1978 to confirm location for another 5 wells and to evaluate open Crown lands which could be posted for sale.



Highvale

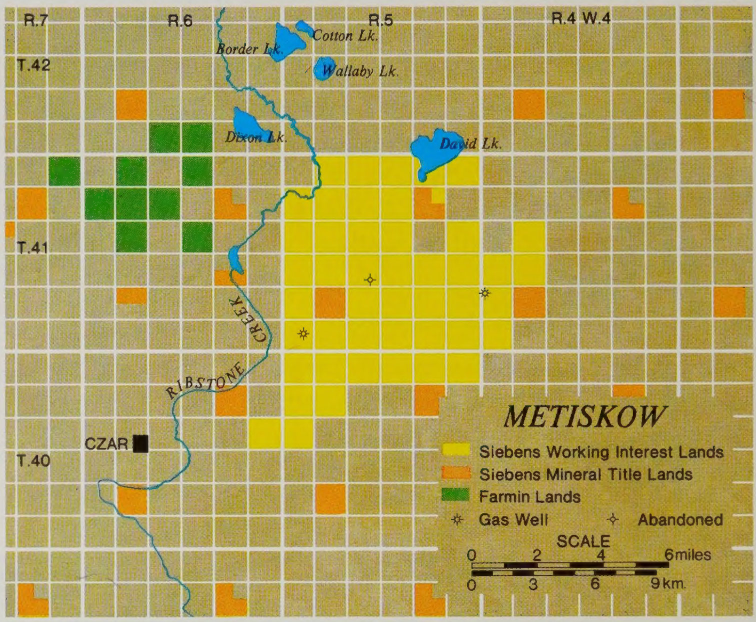
The Company participated in a farmin and option on 15,400 gross acres. Nine wells have been drilled to date resulting in three oil wells, two gas wells, three abandonments and one well presently being evaluated. Timed to the drilling of certain of the wells, 17,890 gross acres were acquired at a total cost of $484,963. The Company's interest varies from 25% to 42% and further geophysical work and drilling is planned to develop the prospect.

To the immediate southeast of Highvale, the Company drilled a gas well on Siebens Mineral Title acreage and acquired an 8,300 acre P & NG Exploratory Licence at a total cost of $565,000. The Company's interest is 75% and further wells are planned to develop the acreage.



Metiskow

The Company participated in the acquisition of 21,280 gross acres at a total cost of $2,165,351. These lands are held in both P & NG Exploratory Licences and Leases with Siebens maintaining a varying interest of 25% to 33.33%. The partnership has also negotiated farmins and options on an additional 14,700 gross acres. To date, four wells have been drilled resulting in two gas wells and two abandonments. A further geophysical program is underway to define the prospects.



The above areas are highlighted as being representative of the combination of both drilling and land acquisition. The Company this past year has acquired substantial land holdings in approximately 15 other prospects.

Exploratory work on certain specific prospects has been initiated and the Company will be involved in the drilling of 3 deep tests ranging in depths from 11,000 feet to 15,000 feet in the Alberta Foothills. In the same area, the Company is a participant in a consortium which has acquired approximately 300 miles of seismic in order to outline potential gas bearing structures on which acreage purchases are anticipated in 1978.

In Northeast British Columbia, exploratory efforts will culminate with the drilling of approximately 5 specific prospects. Extensive seismic programs have been laid out over 6 additional prospects and evaluation work is continuing on others. The economics in British Columbia together with vast unexplored areas are the main reasons for the Company taking such an aggressive approach to gaining representation in this Province.

LLOYDMINSTER HEAVY OIL

Substantial production potential, a well known resource base and acceptable production economics make Lloydminster heavy oil possibly Canada's best hope for near term additions to the supply of hydrocarbon fuels. Geological estimates of the crude oil in-place in the Lloydminster area vary from 12 to 40 billion barrels. Oil wells utilizing primary recovery methods have been producing for decades with recoveries averaging only 4% to 6% due to the low gravity of the oil (12° to 23° API). New enhanced recovery methods using water flooding, fire flooding or combustion techniques indicate recoveries between 25% and 50% of the oil in-place may be physically possible.

Because of its substantial mineral title acreage in this promising area (88,000 acres within the map outline below) the Company can anticipate a concentrated drilling program over the next few years as HBOG or the Company itself evaluate the potential for primary or enhanced recovery.

General Crude Oil Company undertook an evaluation program of Sections 26 and 27-51-4 W4M (Siebens Mineral Title Lands) and have drilled seven wells to date. Provided General Crude proceed with a tertiary recovery scheme, the Company may convert to a 25% working interest or retain an additional gross overriding royalty. The original oil-in-place is estimated at 27 million barrels with greater than 25% recovery possible under a tertiary scheme.

The Company also drilled two oil wells in the Hayter area at locations 16-8-41-1 W4M and 13-26-40-1 W4M. The wells are each producing on primary at 40 barrels per day. Original oil in-place for 160 acres at the 13-26 well could be as high as 12 million barrels and thermal recovery may be considered in the future.

During the past fiscal year 41 wells have been drilled by HBOG or its Farmee on the Company's Mineral Title lands within the area shown on the map below with the Company retaining a 20% lessor's royalty. Of these, 24 wells were completed as potential heavy oil wells and 5 were completed as potential natural gas wells. A royalty position in this area is significant considering the extensive production and operating costs involved.

MACKENZIE DELTA - BEAUFORT SEA

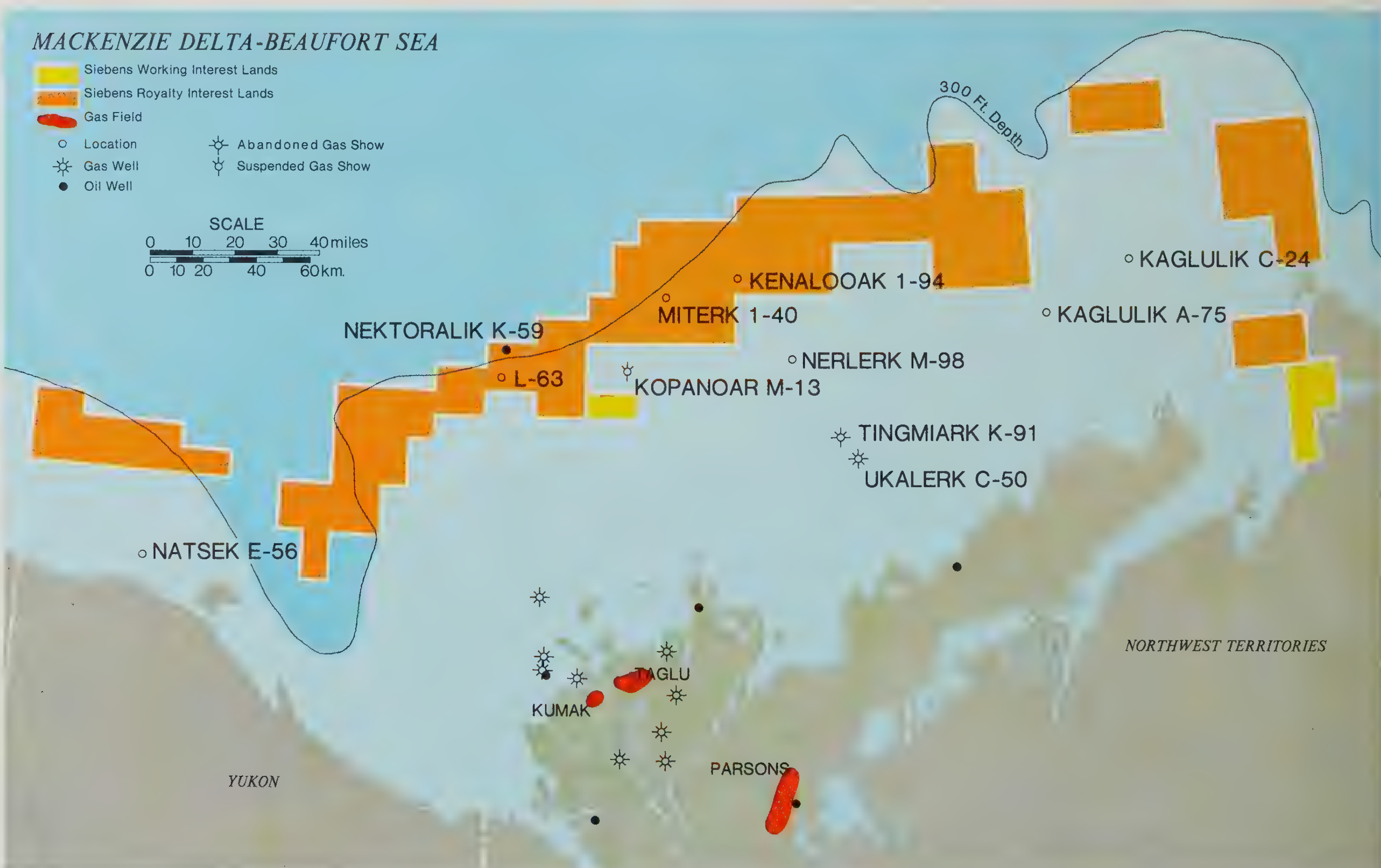
The second season of exploratory drilling in the Beaufort Sea continued during the summer and fall of 1977 with Dome Petroleum Ltd. mobilizing the three Canmar drillships which had been wintered at Herschel Island. Three wells were drilled by the end of the drilling season and surface casing set or prespudding work completed at four other locations in preparation for next year's drilling program.

By season's end, Dome was able to announce all three deep exploratory test wells had encountered encouraging hydrocarbon shows. Subsequent drillstem tests in two of the wells flowed both oil and gas. The Dome Hunt Nektoralik K-59 well tested medium gravity oil at rates up to 1,150 barrels per day from an interval near 8,900 feet as well as oil, gas and condensate from higher zones. This is the first occurrence of crude oil reported from the Beaufort Sea area north of the Mackenzie Delta. Dome Gulf et al Ukalerk C-50 flowed gas at rates up to 16.9 million cubic feet per day from a short interval between 6,530 and 6,620 feet. The calculated open flow from this zone was 200 million cubic feet per day. The third well, Hunt Dome Kopanoar M-13, was bottomed at 9,164 feet and cased to 8,500 feet, below the potential hydrocarbon zones, before it was suspended.

Siebens holds a one percent gross overriding royalty on over three million gross acres of permits in the Beaufort Sea and the Nektoralik well was located on one of these royalty permits. The suspended Kopanoar well is located about three miles north of a 43,255 gross acre permit in which the Company holds a 50% working interest.

Due to the short drilling season in the Beaufort Sea, none of the three wells reached its projected depth. Two of the suspended wells will be re-entered next year for deepening and further appraisal. Eight other locations have either surface casing set or preparatory work conducted in readiness for next summer's drilling program. Three of these locations are situated on Company royalty lands.

The Company's large royalty holdings in this area will certainly continue to be evaluated during on-going exploration in the near future.



ARCTIC ISLANDS

The Arctic Islands Offshore Group has accumulated in excess of 10,000 line miles of data at a cost exceeding $45 million. Offshore structures have been identified similar to those that produce gas on or near land. With the ability to drill offshore wells from ice platforms and the infusion of $80 million from the Arctic Islands Exploration Group (Imperial, Gulf and Petro-Canada), Panarctic and others will be evaluating many of these structures over the next four to six years. The Company would benefit from any commercial discoveries made on its 25% working interest lands which consist of approximately 10.4 million gross acres in the offshore portion of the Sverdrup Basin. Siebens will be carried through any future exploratory drilling on these lands by Phillips Petroleum Canada Ltd. who will fund the drilling cost.

The H.B. Norcen Phillips Cape Allison L-50 well, on the southern tip of Ellef Ringnes Island, spudded November, 1977 to evaluate a large seismic anomaly located immediately offshore to the south. A portion of the structure extends under the Company's 25% working interest Permit A3620.

EAST COAST

The Newfoundland government recently passed legislation which would allow holders of Federal permits in Newfoundland waters to acquire provincial permits covering the same areas. The dual authority may permit exploration to proceed while the matter of ownership of the lands is resolved in the courts. It is expected drilling will commence again in 1978 and operators can continue their program of exploration and appraisal in the Labrador Sea.

Over 900 miles of marine seismic data was acquired last year in the Gander Block, a 5.5 million acre area located 160 miles east of Newfoundland. The Company is a 10% participant in a group of companies which have committed to spend $20 million over the next few years on seismic and drilling. The new seismic data has clarified much of the stratigraphic detail of the structure to be evaluated and a location was selected for the well to be drilled in 1979. This well, to be sited in a water depth of 5,000 feet, will be one of the first drilled in such deep water and will evaluate a structure of immense proportions.

OTHER ACTIVITIES

The Company continues to engage in exploitation of other resource properties and has become involved in several potentially interesting situations.

Geothermal Properties

The Company is participating as to its 25.715% interest in upgrading geothermal properties in the northwest United States covering approximately 264,000 acres. Extensive field mapping has been conducted over one of the most promising properties located in northern California. Substantial acreage positions are held in two other prospective areas in Oregon and lesser positions are being maintained in three other areas. Geological upgrading will continue until specific leases are issued by the respective State Land Bureaus.

Syngas Process

Cavalier Energy Inc., a Company subsidiary, holds an 8.5% interest in a patented Process for converting solid waste to pipeline gas. Cavalier advanced $340,000 towards a pilot project and related studies of the Process. An arrangement was made this year for a well known American firm to expend a substantial amount of money to bring the Process up to the point of commercialization. Commercial viability of the Process is not known at this time and only further evaluation and study will establish its marketability.

Potash and Coal Rights

Many important industrial minerals other than Petroleum and Natural Gas rights are included in the mineral title acreage held by the Company in Western Canada. The Company receives approximately $200,000 annually in royalty income from the few potash and coal leases granted to third parties prior to the Company's takeover of Hudson's Bay Company Resources Ltd. Many enquiries have been made of these assets by parties that deal primarily with the particular resource but, with the increasing market value of potash and the rising importance of coal as an alternate energy source, the Company has curtailed further dealings on these rights until a full evaluation can be made.

Athabasca Oil Sands

With construction of the Syncrude Canada project due to be completed in April 1978 and Shell Canada's announcement of plans to commence construction of a $4 billion oil sand extraction plant if partners and incentives can be obtained, it is obvious the holdup to new plant construction in the Athabasca area focuses on special incentives. Until such incentives are agreed to by the Federal and Alberta Governments, it is unlikely operators will consider development of the large in-place reserves proven to be present.

In the meantime, the Company's royalty holdings of a 1.6% interest in 36,638 gross acres and a 1.75% interest in 49,964 gross acres situated adjacent to both the Syncrude Project and the GCOS Plant, continue to be a valuable entity in the Company's land inventory.

Mineral Exploration

Three uranium properties operated by Aquitaine Canada Ltd. and in which Siebens holds a one third interest, have been optioned to other mineral exploration companies to earn an interest by expending $2.2 million on further exploration and appraisal drilling. These properties are located at Moncton, New Brunswick, Amer Lake in the eastern N.W.T. and Dismal Lake near Coppermine, N.W.T. A large number of claims were staked last year in various areas of Canada and these properties will be investigated in more detail this summer.

In another joint venture arrangement, the Company agreed to fund one third of the exploration costs in return for a 25% interest in some 500 claims staked on a silver-lead prospect in the Yukon Territories. Initial assays indicate very high percentages of silver over a zone extending several miles in length. Further geological and geochemical studies will be undertaken on these claims in the coming year.

Mingan Islands

In 1973 the Company acquired, through the purchase of Hudson's Bay Company Resources Ltd., 22 islands lying along the North Shore of the St. Lawrence River. An extensive core-hole program was conducted last summer on Grande Isle, the largest of the Mingan Islands, to confirm large reserves of very pure limestone.

Nineteen core holes were drilled within an area of one square mile. Indicated reserves of pure limestone in-place was calculated to be 91 million tons within an area of ½ square mile. Economic and market studies will have to be undertaken to assess the viability of a commercial project.

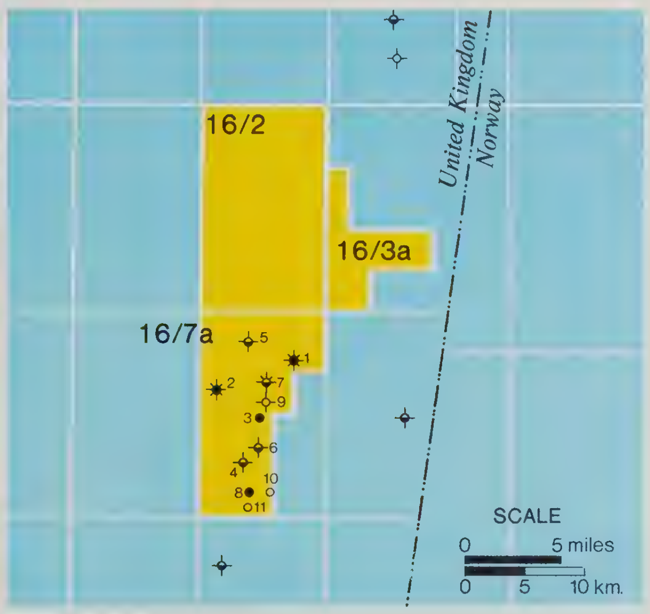
INTERNATIONAL EXPLORATION

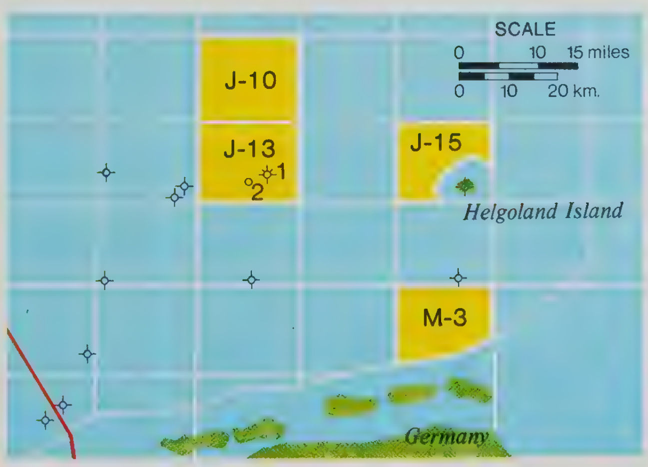
UNITED KINGDOM

Appraisal drilling continued in the U.K. sector of the North Sea on Production Licence P. 108 which covers Blocks 16/3a and 16/7a. Previous drilling had discovered the Brae Field in 1975 with wells 16/7-1 and 16/7-3 encountering approximately 500 feet and 1,000 feet respectively of gross hydrocarbon section in Jurassic sandstones.

Wells 16/7a-4 and 16/7a-5 delineated the western flank of the Brae structure but, although both wells encountered hydrocarbons, were unable to sustain economic flow rates. The 16/7a-6 well, located 2 miles south of the 16/7-3 gas and oil discovery, tested at a combined rate of 600 barrels per day of oil from four drillstem test intervals and was abandoned. The next appraisal well, 16/7a-7, was drilled 2 miles north of 16/7-3 and flowed 1,385 barrels per day from a 26 foot gross interval. The balance of the reservoir was not tested due to its low permeability. Brae 16/7a-8, drilled 4.3 miles southwest of 16/7-3, encountered 1,220 feet of gross reservoir and flowed at a combined rate of 33,122 barrels per day with a gas-oil ratio of 1,267 cubic feet per barrel from five selected intervals. Brae 16/7a-9, located 1 mile northeast of 16/7-3, was abandoned after penetrating an impermeable reservoir section. Currently, wells 16/7a-10 and 16/7a-11 are appraising the 16/7a-8 discovery and are located 1 mile east and 1 mile south respectively from that location. Future appraisal drilling will be determined by the results of these wells.

Siebens (U.K.) has a 4% interest in Blocks 16/3a and 16/7a and a 5% interest in Block 16/2. Under an agreement with Marathon Oil Company, Siebens (U.K.)'s share of past and future exploration and development costs on the Brae blocks will be borne by Marathon, who will recover the development costs from a portion of Siebens (U.K.)'s production proceeds.





An agreement has been reached with Chevron Petroleum (U.K.) Limited which, subject to approval by certain U.K. governmental bodies, provides for Chevron to drill an exploratory well on each of Blocks 2/10 and 3/28 and thereby earn a 50% interest in each block. Siebens (U.K.)'s interest would reduce to 47.5% when the wells were completed. It is expected drilling of these wells will occur during the first half of 1978 if the long overdue approvals are obtained.

The announcements by BP and Esso of oil discoveries west of the Shetland Islands have revived interest in this sedimentary basin. Of interest to Siebens (U.K.) is the well being drilled by Phillips immediately offsetting Block 205/30 to the north. Another structure on this Block was drilled unsuccessfully by Siebens (U.K.) in 1974, but a discovery by Phillips would have important implications as this structure extends into Block 205/30. Siebens (U.K.) has a 95% interest in Block 205/30.

GERMANY

The first exploratory well drilled on Siebens (U.K.)'s 45% interest lands offshore Germany was completed in February, 1977. The well, J/13-1, was drilled to 16,604 feet and bottomed in beds of Permian Rotliegendes age. A 55 foot basal sandstone bed topped at 16,351 feet gave indications of high quality gas from limited testing. Unfortunately, the well was abandoned due to mechanical problems before additional confirmation testing could be completed.

A detailed seismic survey was taken in the vicinity of J/13-1 and another, more attractive Rotliegendes structure was delineated. Drilling of this feature, located about 4 miles west of J/13-1, commenced November 29, 1977 and should be completed early in 1978.

VIET NAM

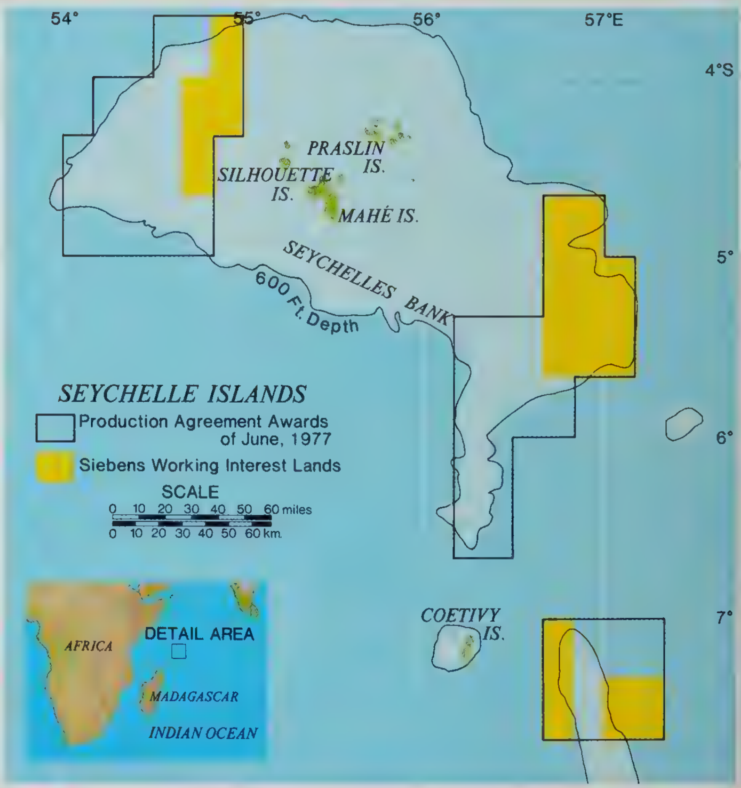
Siebens is a member of a group of Canadian companies which is negotiating with the Government of the Socialist Republic of Viet Nam to regain two offshore blocks issued by the previous South Vietnamese regime. Exploration has not proceeded offshore Viet Nam since the end of the war but there are indications that the Government is ready to conclude new agreements at this time.

Your Company will be attending future meetings and an agreement may be concluded if acceptable terms can be agreed on.

SEYCHELLE ISLANDS

On June 30, 1977, the Government of the Seychelle Islands and the Company signed a Petroleum Agreement covering approximately 2.7 million acres of exploration lands on the shallow water banks surrounding the Islands. The Seychelle Islands are located approximately 1,000 miles east of Kenya, East Africa. Siebens will conduct an initial marine seismic survey totalling at least 840 line miles over the blocks followed by an in-fill program in those blocks which show adequate sedimentary section. Further detail seismic would be conducted during the second year after which time the Company could commit to an exploratory well prior to the end of the fourth year. The Government has the option to take up to 50% participation in development of petroleum fields. The Company's share of production would be subject to a 55% income tax rate and a maximum royalty of 12.5%.

The Seychelle Islands and banks are considered a micro-continent because of their granite framework and are assumed to be a remnant left behind when India separated from Africa, Australia and Antarctica during the Cretaceous Era. A fairly thick Mesozoic to Tertiary sequence of sediments is suspected to wrap around the granite core of the Islands and structures within this sequence will be the objective of the seismic program. Shooting commenced on the Company's lands in December, 1977.



SOUTH YEMEN

Siebens holds a 100% interest in a 4.48 million acre Production Sharing Agreement issued by the People's Democratic Republic of Yemen and located south of the Island of Socotra near the entrance to the Gulf of Aden. Geophysical surveys revealed a major sedimentary basin to the south of Socotra with up to 30,000 feet of pre-Eocene sediments deposited prior to the opening of the Gulf of Aden in recent geologic time.

The concession contains a series of large uplifted fault blocks which become progressively buried basinward with increasing thickness of preserved Mesozoic sediments over their crests. A very large structure with up to 75,000 acres of areal closure and 1,700 feet of vertical relief was seismically mapped in 1976 and identification of the seismic reflectors was tentatively confirmed by a Company geologic field party early in 1977. The party visited the Islands of Socotra, Samhah and Abd al Kuri and dated with certainty several unconformities by means of paleontology. A previously undescribed sequence of rocks at the eastern end of Socotra was identified as marine Permo-Carboniferous in age which confirmed the sedimentary basin was much older than earlier geologists had considered.

The most important geological discoveries made, however, were a thick sequence of basal sands with excellent reservoir qualities found on Abd al Kuri and Samhah, overlain by anhydritic cap rocks and black organic shales. In addition, reef buildups were recognized in outcrop as well as in seismic sections. Horizons equivalent to Upper and Lower Cretaceous and possibly Jurassic to Permian rocks, which are productive in Oman and the Arabian Gulf, are therefore present in the concession area and become objectives in the large seismic structure. All the ingredients necessary for the trapping of hydrocarbons are present; structure, reservoir rocks, source rocks and seal.

The decision was taken to drill an exploratory well on the structure and a turnkey drilling contract was negotiated for the Neddrill 2 dynamically positioned drillship. The well will be drilled, cored, logged and tested to a possible depth of 13,000 feet for a turnkey price of U.S. $4 million. Neddrill will

provide all equipment, material and services to drill the well and all problems encountered in the operation, except as specifically provided, will be at their sole risk and cost. This unusual drilling contract will, when completed, have evaluated the structure while limiting the Company's upside financial risk.

It is not often the opportunity arises to evaluate a huge structure in an area where petroleum reserves in the billion barrel category could be present. In this case, your Company feels the rewards are commensurate with the risks involved. Siebens Samhah No. 1 commenced drilling in October, 1977 and should be completed early in 1978.

FOREIGN LAND HOLDINGS

Location	Type of Ownership	Gross Acres	Net Acres
Germany (1)	Permits.......	354,199	159,390
Seychelle Islands	Agreement....	2,706,530	2,706,530
South Yemen (PDRY)	Agreement....	4,488,621	4,488,621
United Kingdom (1)	Licences......	310,783	173,781
United States of America (3)			
Alaska (2)	Leases.......	22,125	11,062
Montana	Leases.......	36,652	9,163
North Dakota	Leases.......	25,840	6,675
		7,944,750	7,555,222

(1) Acreage in which Siebens (U.K.) holds an interest. Siebens Canada owns 31.7% of the issued and outstanding shares of Siebens (U.K.).

(2) The Company also holds priority rights on 118,097 net acres under dispute between the U.S. Federal Government and the State of Alaska relating to Native Claims. Royalty interests in 17,794 acres located on the North Slope of Alaska are held by the Company.

(3) The Company holds approximately 264,000 gross acres or 67,887 net acres of priority applications on U.S. Geothermal leases.

Drillship Neddrill 2 underway towards Samhah location near Gulf of Aden.

PRODUCTION

Natural Gas

During the past fiscal year the Company's net sales of natural gas, after all royalties, averaged 36.4 million cubic feet of gas per day, an increase of 44% over the previous year. This increase was achieved despite the adverse impact of reductions in take by the major purchasers caused by the oversupply situation in Western Canada. The Company's total net gas production rate at year end was approximately 40 million cubic feet per day.

The Company and its subsidiary, Cavalier Energy Inc., have interests in six areas of Alberta which are to go on stream during the first quarter of 1978. Three of these, namely, Tower North, Tower South and Wandering River, were anticipated to go on stream in the spring of 1977, however, the proposed purchaser, Syncrude, was able to obtain its interim supply from other sources. These plants will go on stream in November, 1977 and should be at full capacity by April, 1978. Siebens' net production from these three areas will be seven million cubic feet per day. The other three areas, located at Sedalia, Camrose and Jenner will add one million cubic feet per day to the Company's production.

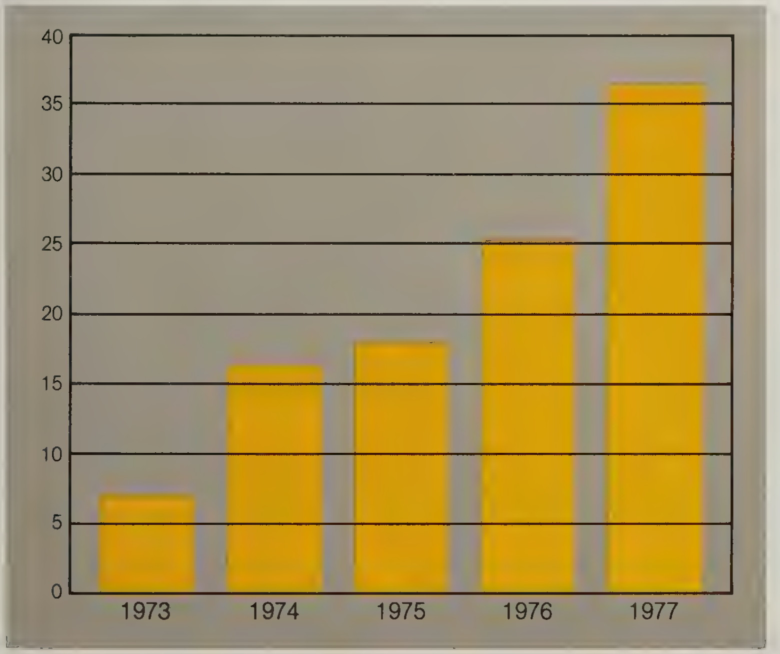
In British Columbia, Siebens has a 26% interest in five wells in the Monias Field. Gas from this field is contracted and production expected to commence on July 1, 1978. Siebens' net share of production from this field will be 2.5 million cubic feet per day.

In summary, the Company's average net production rate for fiscal 1978 is predicted to be 45 million cubic feet per day with a peak rate of 55 million cubic feet per day. These rates include an anticipated increase of two million cubic feet per day from royalty gas. This production, along with increased gas prices, will result in significantly higher gas sales revenue to the Company.

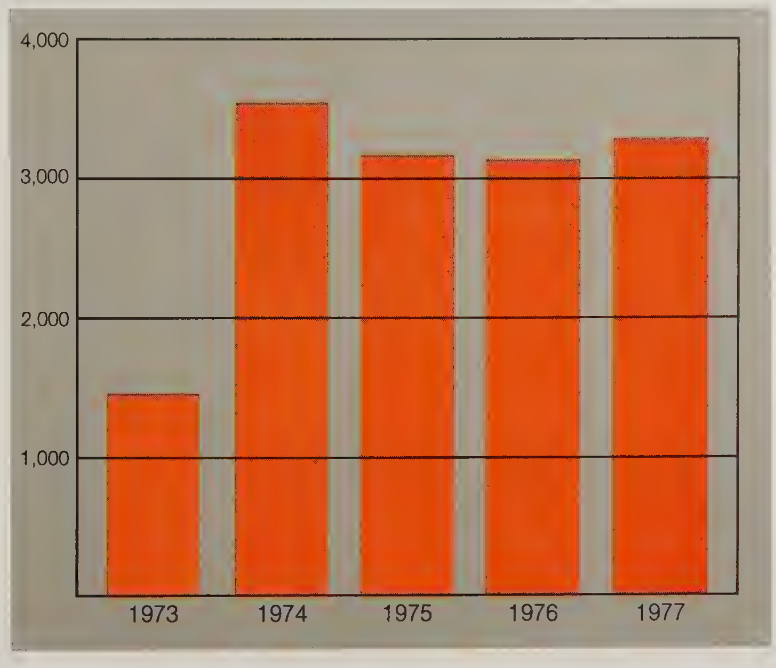
Negotiations are under way to contract gas for delivery in the fall of 1979, or 1980. These sales contracts are contingent on a satisfactory export arrangement being concluded with the United States. In the event we are able to obtain these new gas contracts, our present uncontracted reserves of approximately 111 Bcf would result in an increase in production of 12 to 15 million cubic feet per day.

Revenue from domestic gas production increased from an average of $0.97 per Mcf in 1976 to $1.22 per Mcf in 1977. The average wellhead price for Alberta natural gas is predicted to be $1.62 per Mcf in 1978.

NATURAL GAS SALES
Millions of Cubic Feet Per Day (Net)



PRODUCTION OF CRUDE OIL AND NATURAL GAS LIQUIDS
Barrels Per Day (Net)



Crude Oil & Natural Gas Liquids

Production of crude oil and natural gas liquids, after deduction of all royalties, averaged 3,286 barrels per day, an increase of 5% from last year's average. Normal production declines and market proration were more than offset by the increases obtained from new wells going on stream at Hayter, Highvale, Lanaway and Pembina. Continued development programs are to be carried out in the Highvale, Hayter, Caroline and Crossfield areas and 1978 production is expected to increase moderately.

The price of Western Canadian crude increased by $.70 per barrel on January 1, 1977 and by another $1.00 per barrel on July 1, 1977 bringing the current average price to $10.75 per barrel. This price is to increase by $1.00 per barrel on January 1, 1978, July 1, 1978, and again on January 1, 1979. The average price received by the Company for crude oil production in 1977 was $9.62 per barrel.

Royalty production in 1977 accounted for 80% of the Company's oil and natural gas liquids production. This royalty production adds significantly to net profits due to the large leverage of profit margins.

General Operations

The Company and its subsidiary, Cavalier Energy Inc., operate 13 gas treating and compressor stations in Alberta. These stations have a gross output of 70 million cubic feet of gas per day. Two additional operated plants are presently under construction at Jenner and Turin.

Siebens presently operates oil wells in 10 field areas of Alberta, one field area in Saskatchewan and one field area in Manitoba. Due to the emphasis on exploration for oil, it is expected the number of operated oil projects will increase next year.

Unitization projects continue to be an important facet of the Company's business. The Company (or its subsidiary) has working interests in 14 units and is the Operator of six units. At year end negotiations were in progress for the formation of an additional three units.

SOURCE OF PRODUCTION

OIL PRODUCTION (Net)

Barrels/Day

Area	1977	1976
ALBERTA:		
Bonnie Glen	336	317
Fenn Big Valley	256	219
Harmatton Elkton	177	136
Pembina	176	200
Caroline	153	46
Gilby	117	76
Medicine River	116	90
Willesden Green	114	121
Wainwright	86	82
Redwater	68	67
Chauvin	60	54
Cessford	50	27
Leduc	49	62
Westerose	47	52
Sunset	39	26
Garrington	38	40
Joarcam	37	41
Other	669	837
Sub-Total	2,588	2,493
SASKATCHEWAN:	666	619
MANITOBA:	32	22
TOTAL	3,286	3,134

GAS PRODUCTION (Net)

MCF/Day

Area	1977	1976
ALBERTA:		
Portage	3,465	1,358
Medicine Hat	2,425	1,902
Gilby	2,319	2,306
Enchant	2,151	2,023
Verger	1,879	636
Athabasca	1,870	—
Willingdon	1,683	238
Paddle River	1,457	—
Braeburn	1,307	583
Minnihik-Buck Lake	1,306	382
Hairy Hills	1,182	—
Jenner	942	—
Inland	797	—
Provost	746	578
Sylvan Lake	623	595
Westerose	613	646
Wildcat Hills	497	495
Garrington	443	433
Cessford	316	578
Harmatton Elkton	261	692
Ghost Pine	229	258
Others	9,726	11,264
Sub-Total:	36,237	24,967
SASKATCHEWAN:		
Sub-Total:	180	261
TOTAL:	36,417	25,228

RESERVES

The Company's gross and net recoverable reserves, as estimated by McDaniels Consultants (1965) Ltd. and Siebens engineering staff, are shown on the accompanying Table.

Net reserves of proven and probable marketable gas were 333 billion cubic feet on October 31, 1977 and provide a reserve life index of 25.1 years based on 1977 production rates. These reserves are 26% higher than last year's total of 265 billion cubic feet.

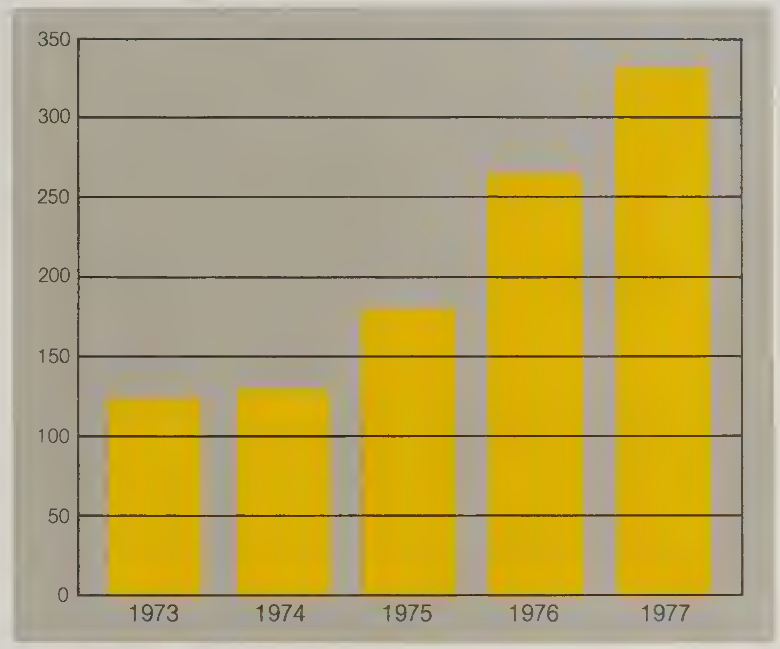
Proven and probable reserves of oil and natural gas liquids increased fractionally to 13,065,000 barrels and represent a reserve life index of 10.9 years. Reserves discovered during the year added 500,000 barrels and engineering reviews provided another 700,000 barrels which together balanced our production for the year.

Recoverable equivalent reserves at year end amounted to 60,722,000 barrels of oil including both proven and probable categories. This equivalent was calculated by converting gas at one barrel equal to 7 Mcf of gas and 2 barrels per long ton of sulphur. A comparison with last year's equivalent reserves on the same basis shows an increase of 19 percent. These estimates do not include any reserves in the tar sands area.

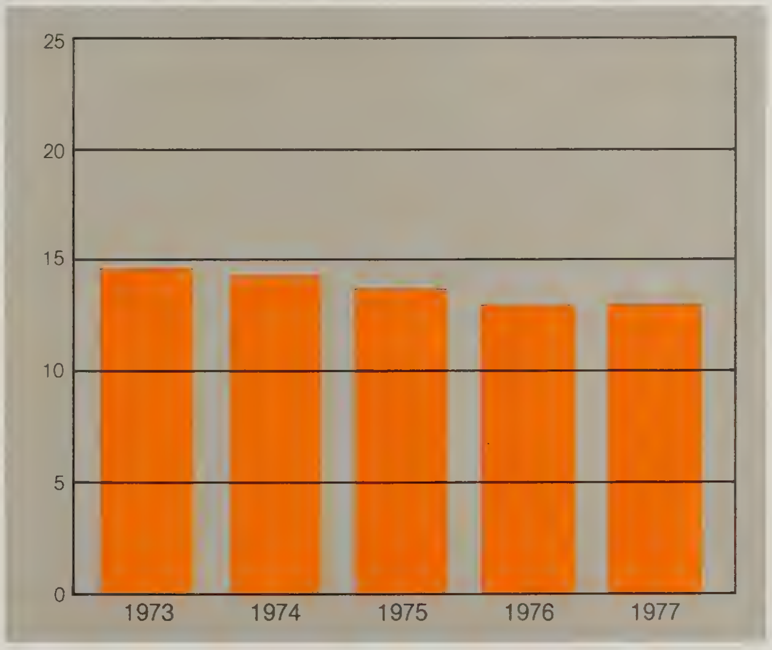
Royalty gas as a percentage of total gas reserves decreased from 38% in 1976 to 35% in 1977. Oil and natural gas liquids showed the same trend with the royalty percentage changing from 83% in 1976 to 70% in 1977. These changes are indicative of the Company's success in participating in exploratory projects during the year.

Net proven and probable reserves of sulphur declined to 38,000 long tons as compared to 40,000 long tons at year end 1976. This 2,000 long ton reduction in sulphur reserves was due mainly to production during the past year.

PROVED AND PROBABLE NATURAL GAS RESERVES - NET
Billions of Cubic Feet



PROVED AND PROBABLE OIL AND NATURAL GAS LIQUIDS RESERVES - NET
Millions of Barrels



RESERVES OF OIL, NATURAL GAS LIQUIDS, NATURAL GAS AND SULPHUR

October 31, 1977	Gross Reserves			Net Reserves		
	Proven	Probable	Total	Proven	Probable	Total
Crude Oil (barrels)	7,902,700	4,799,800	12,702,500	7,501,000	4,523,300	12,024,300
Natural Gas Liquids (barrels)	991,600	64,100	1,055,700	976,900	64,100	1,041,000
Natural Gas (millions of cubic feet)	329,240	100,550	429,790	257,040	76,030	333,070
Sulphur (long tons)	35,290	3,770	39,060	34,280	3,770	38,050

FINANCIAL REVIEW

The Company continued its growth in 1977 with net earnings amounting to $14,379,000 ($1.56 per share) as compared to $10,646,000 ($1.16 per share) in 1976, a 35% increase. Cash Flow from operations increased 41% to $22,766,000 ($2.47 per share) as compared to $16,117,000 ($1.75 per share) in 1976.

Gross Revenue totalled $27,179,000 as compared to $18,861,000 for the prior year, a 44% increase. Gas sales revenue increased by 70% to $15,643,000 and oil sales revenue rose 22% to $9,055,000.

Production expenses increased from $1,129,000 to $2,075,000, a $946,000 increase due to the following combination of factors. First, "Working Interest" production as compared to "Royalty Interest" production accounted for a higher percentage of total revenue in 1977 than in 1976. The Company is responsible for production expenses on Working Interest properties whereas no such costs are payable on Royalty Interest production. Second, the increase in gas production of 44% and oil production of 5% meant more wells had been put on-stream and therefore more production costs had been incurred. Third, inflation pressures on capital expenditures and wages and salaries have generally increased the Company's operating costs.

General and Administrative expenses have increased by $281,000 from $752,000 to $1,033,000. Minority interest expense resulting from the Cavalier Energy Inc. purchase in 1976 accounted for $125,000 of this increase. A large portion of the remaining increase was due to inflationary pressures, but in addition, a change in staff from 44 employees to 52 employees also contributed to this increase.

Interest expense in 1977 was $1,484,000 as compared to $497,000 in 1976. Long Term Debt of approximately $8,000,000 was incurred in August 1976 to purchase Cavalier Energy Inc. Interest was payable on this loan for 12 months in the 1977 year whereas the year ended October 31, 1976 had only three months interest reflected in the accounts.

Depletion and amortization expense for 1977 was $3,029,000 as compared to $1,614,000 for the prior year. This very large increase is due to the following three reasons.

First, production of both gas and oil has increased over the prior year. This increase in production has accounted for $728,000 of the depletion expense increase.

Second, the depletion rate for 1977 was higher than the 1976 rate due to the higher costs involved in searching for new oil and gas. In addition, a very large portion of the 1977 budget was spent on land purchases. Such land costs are not immediately reflected in increased reserves and therefore will have a tendency to increase the depletion rate. The higher depletion rate in 1977 as compared to the 1976 rate accounted for a $469,000 increase in depletion.

Third, in recording the purchase of Cavalier Energy Inc. on the books of Siebens Oil & Gas Ltd., an amount of $5,784,000 representing the excess of cost over book value was charged to Siebens' depletable asset base. This has resulted in a $218,000 increase in depletion in 1977.

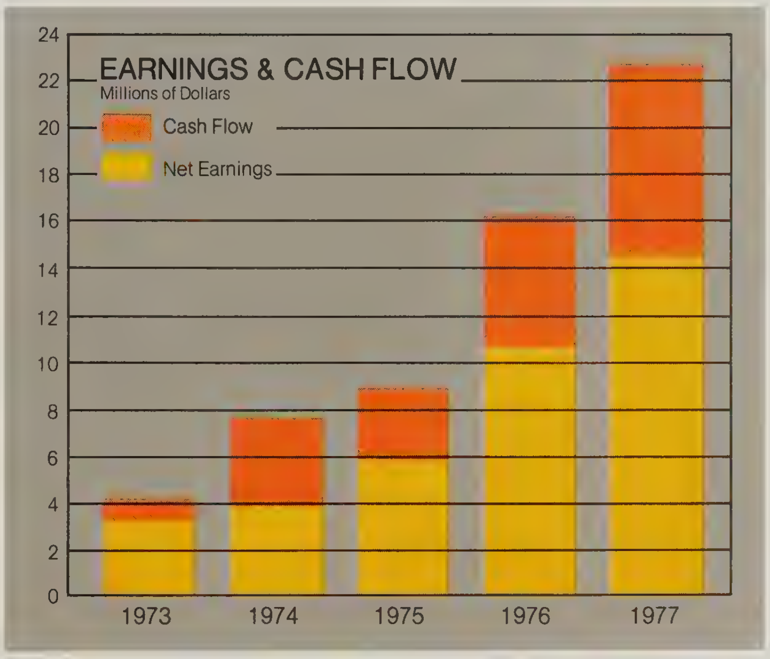
Depreciation totalled $680,000 in 1977. The increase of $289,000 over 1976 is mainly attributable to new gas plants being constructed during 1977.

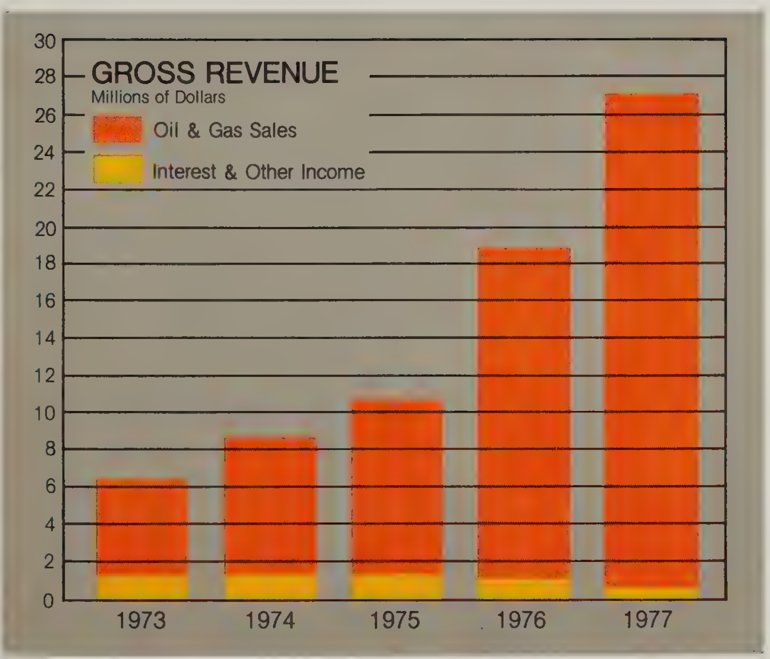
Stock Market Prices (SOG)		1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
		Nov.-Jan.		Feb.-Apr.		May-July		Aug.-Oct.	
		High	Low	High	Low	High	Low	High	Low
Range of Common Share									
Market Prices on	1975/76	$11.75	8.38	13.63	10.25	15.75	12.50	14.75	12.25
Toronto Stock Exchange	1976/77	$14.88	12.13	14.88	13.25	17.50	13.13	19.25	15.88

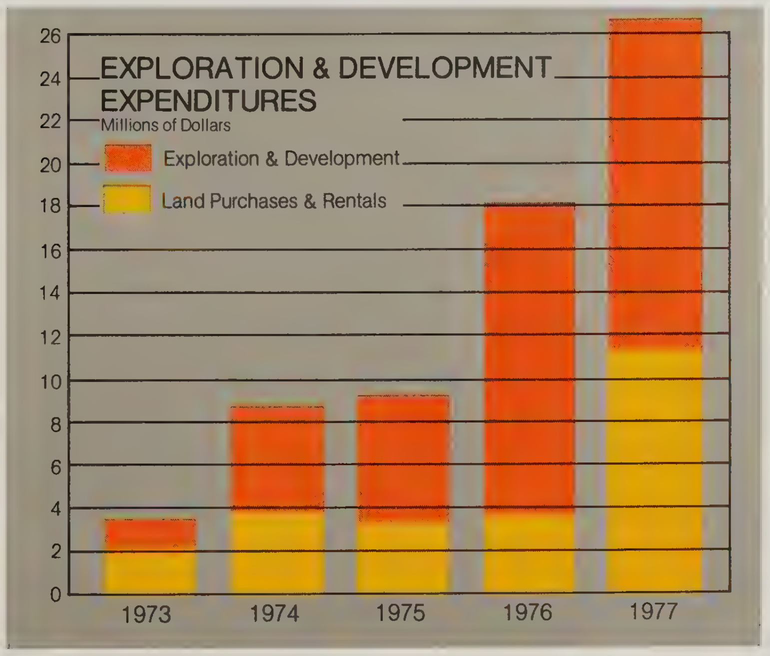
Provision for deferred Income Taxes was $4,638,000 in 1977. The deferred Income Taxes of $13,466,000 that appears on the Company's balance sheet as at October 31, 1977 does not represent an obligation of the Company. This amount simply represents the accumulated provision, from the earnings of the company in prior years, for income taxes which have been indefinitely deferred as a result of the Company claiming capital cost allowances and exploration and development costs in excess of the depreciation and depletion provisions as reflected for financial reporting purposes.

Provided the Company maintains a sufficient oil and gas exploration and capital investment program to offset taxable income in the future, it is very unlikely that the accumulated deferred income taxes will become payable.

Based on the information presently available, the Company is confident that another year of growth can be predicted. The Company estimates that for the year ending October 31, 1978, Consolidated Gross Revenues will increase 33% to $36,000,000, Cash Flow will increase 36% to $31,000,000 ($3.35 per share) and Net Earnings will increase 39% to $20,000,000 ($2.16 per share).







Siebens Oil & Gas Ltd
AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

As at October 31, 1977

Assets

	1977	1976
CURRENT ASSETS		
Cash	$ 95,000	$ 150,000
Marketable securities	—	60,000
Accounts receivable	6,397,000	4,680,000
Income taxes recoverable	2,177,000	2,119,000
	8,669,000	7,009,000
INVESTMENTS (note 2)	12,514,000	12,883,000
PROPERTY, PLANT AND EQUIPMENT		
Petroleum and natural gas leases and rights, together with exploration, development and equipment thereon, at cost (note 1)	75,793,000	51,113,000
Accumulated depletion and depreciation	8,519,000	4,884,000
	67,274,000	46,229,000
Other equipment, at cost less accumulated depreciation 1977 — $181,000; 1976 — $123,000	122,000	104,000
	67,396,000	46,333,000
	$88,579,000	$66,225,000

Approved by the Board:

Wm. W. Siebens Director

Director

Liabilities

	1977	1976
CURRENT LIABILITIES		
Bank operating loan, secured	$ 3,555,000	$ 4,594,000
Accounts payable and accrued liabilities	6,127,000	4,134,000
Current maturities on bank production loans	2,400,000	1,840,000
	12,082,000	10,568,000
GAS PRODUCTION PREPAYMENTS	2,560,000	258,000
BANK PRODUCTION LOANS (note 3)	7,650,000	8,113,000
DEFERRED INCOME TAXES (note 1)	13,466,000	8,828,000
MINORITY INTEREST	689,000	705,000
CONTINGENT LIABILITIES (note 4)		

Shareholders' Equity

CAPITAL STOCK (note 5)		
Authorized		
12,000,000 shares without nominal or par value		
Issued		
9,209,121 (1976 — 9,198,856) shares	13,513,000	13,513,000
CONTRIBUTED SURPLUS	3,448,000	3,448,000
RETAINED EARNINGS (note 6)	35,171,000	20,792,000
	52,132,000	37,753,000
	$88,579,000	$66,225,000

Siebens OIL & GAS LTD

AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings and Retained Earnings

Year Ended October 31, 1977

	1977	1976
REVENUE		
Oil and gas sales	$26,603,000	$17,755,000
Investment	271,000	1,098,000
Other	305,000	8,000
	27,179,000	18,861,000
EXPENSES		
Production	2,075,000	1,129,000
General and administrative	1,033,000	752,000
Interest on bank production loans	968,000	254,000
Other interest	516,000	243,000
Depletion and amortization	3,029,000	1,614,000
Depreciation	680,000	391,000
	8,301,000	4,383,000
EARNINGS BEFORE INCOME TAXES	18,878,000	14,478,000
INCOME TAXES		
Current	(139,000)	288,000
Deferred	4,638,000	3,544,000
	4,499,000	3,832,000
NET EARNINGS	14,379,000	10,646,000
Retained earnings at beginning of year	20,792,000	10,146,000
RETAINED EARNINGS AT END OF YEAR	$35,171,000	$20,792,000
NET EARNINGS PER SHARE	$1.56	$1.16

Consolidated Statement of Changes in Financial Position

Year Ended October 31, 1977

	1977	1976
SOURCE OF FUNDS		
From operations	$22,766,000	$16,117,000
Investments	498,000	517,000
Sale of petroleum and natural gas rights	1,560,000	250,000
Bank production loans	—	8,962,000
Gas production prepayments	2,302,000	—
Other	—	28,000
	27,126,000	25,874,000
APPLICATION OF FUNDS		
Acquisition of Cavalier Energy Inc.	—	7,508,000
Property, plant and equipment	26,325,000	18,025,000
Bank production loans	463,000	1,840,000
Reduction in minority interest	192,000	—
	26,980,000	27,373,000
INCREASE (DECREASE) IN WORKING CAPITAL	$ 146,000	$(1,499,000)

Auditors' Report

To the Shareholders of
Siebens Oil & Gas Ltd.

We have examined the consolidated balance sheet of Siebens Oil & Gas Ltd. as at October 31, 1977 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
December 16, 1977

Thorne Riddell & Co.
Chartered Accountants

Notes to Consolidated Financial Statements

Year Ended October 31, 1977

1. ACCOUNTING POLICIES

a) Principles of Consolidation

The consolidated financial statements include the accounts of Siebens Oil & Gas Ltd. (the Company) and its subsidiaries, Siebens Oil & Minerals, Inc., Siebens Oil & Gas (Vietnam) Ltd., Siebens Oil & Gas (S.E. Asia) Ltd., Siebens Oil & Gas (Seychelles) Ltd. and Cavalier Energy Inc. (Cavalier). All subsidiaries are wholly-owned with the exception of Cavalier in which the Company has an 87.6% interest.

The Company follows the equity method of accounting for its investments in Siebens Oil & Gas (U.K.) Limited, (Siebens (U.K.)), and Western Resources Minerals Limited. Under this method, the Company's investment in these companies is carried on the balance sheet at cost plus its share of net increases or decreases in their shareholders' equity accounts. The Company's share (1977 — $124,000; 1976 — $152,000) of the earnings of these companies has been included in investment income in the consolidated statement of earnings.

The excess of the cost of the shares of Siebens (U.K.) ($1,352,000) over the underlying book value of its net assets at the dates of acquisition has been allocated to petroleum and natural gas properties and will be amortized on the same basis as the related assets as outlined below.

b) Petroleum and Natural Gas Operations

The companies follow the "full-cost method" of accounting for their petroleum and natural gas operations. Under this method all costs of exploring for and developing oil and gas reserves are capitalized and charged to income as set out below.

(i) Costs incurred in North America are being depleted using the unit of production method based on estimated recoverable North American reserves as determined by Company engineers.

(ii) Prior to May 31, 1975, costs incurred by Siebens (U.K.) in the North Sea area were being amortized on a straight-line basis at the rate of 10% per annum; at that date, exploration in the North Sea was determined to have been successful and, accordingly, the unamortized portion of North Sea costs will be depleted upon commencement of production using the unit of production method based on estimated recoverable reserves in the North Sea.

(iii) The costs of exploration in other foreign areas are accumulated on an area of interest basis and will be depleted on the basis of oil and gas reserves as an when discovered in each area or written-off to income if exploration in any area is determined to be unsuccessful.

c) Income Taxes

The companies follow the tax allocation method of accounting under which the income tax provision is based on the earnings reported in their accounts. Under this method, the companies provide for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming capital cost allowances and exploration and development costs in excess of the depreciation and depletion provisions reflected in their accounts.

d) Foreign Currency Translation

Amounts in foreign currencies are translated to Canadian dollars on the following bases:

(i) Current assets and current liabilities, at the rate of exchange in effect as at the balance sheet date.

(ii) Fixed assets, at the average rate of exchange for the years in which the respective assets were acquired.

(iii) Revenue and expenses (excluding depletion and amortization which are converted at the same rates as the related assets), at the average rate of exchange for the year.

2. INVESTMENTS

	1977	1976
Siebens Oil & Gas (U.K.) Limited		
Investment — 31.7% share interest	$12,289,000	$12,315,000
Account receivable	—	429,000
Western Resources Minerals Limited		
45% share interest held by Cavalier	225,000	139,000
	$12,514,000	$12,883,000

3. BANK PRODUCTION LOANS

	1977	1976
Siebens Oil & Gas Ltd.	$10,050,000	$ 8,521,000
Cavalier Energy Inc.	—	1,432,000
	10,050,000	9,953,000
Less current maturities included in current liabilities	2,400,000	1,840,000
	$ 7,650,000	$ 8,113,000

The bank production loans are evidenced by demand promissory notes repayable at approximately $200,000 per month, bear interest at ¾% above a bank prime lending rate and are secured by the companies' interests in certain petroleum and natural gas properties and a general assignment of book debts.

Bank loan maturities for each of the five years subsequent to October 31, 1977 are as follows: 1978 — $2,400,000; 1979 — $2,400,000; 1980 — $2,400,000; 1981 — $2,400,000; 1982 — $450,000.

4. CONTINGENT LIABILITIES AND COMMITMENTS

a) As of October 31, 1977, the Company was contingently liable under non-interest bearing demand notes and letters of credit aggregating approximately $1.2 million as security for the performance of work obligations in respect of exploration activities.

b) As of October 31, 1977, the Company was committed under the terms of a turnkey drilling contract to drill an offshore well in the Middle East. The Company estimates that the cost of drilling the well to the contract depth will approximate $5 million.

5. CAPITAL STOCK

a) During the year, the Company issued 10,265 shares on exercise of stock options. These options were exercised as "market growth" options under which the optionee is not required to make a cash payment and receives shares based on the excess of the market value at the date of exercise over the option price.

b) As at October 31, 1977, 225,579 shares of the Company were reserved under a key employee incentive share option plan dated July 16, 1974, of which options on 156,039 shares were outstanding, exercisable as "market growth" options in annual instalments to August, 1983 at prices ranging from $5.63 to $14.85 per share. This plan was terminated effective November 7, 1977, however, all options outstanding at that date will continue in force until either the shares are exercised or the agreement is terminated.

c) By special resolution dated November 7, 1977, the shareholders of the Company approved an increase of $10,000,000 in the authorized capital of the Company by the creation of 5,000 preferred shares with a nominal or par value of $2,000 each. The preferred shares are intended to be issued from time to time by the directors at par to full time employees and it is proposed that each series will be convertible into common shares of the Company.

6. DIVIDEND RESTRICTION

The Company is subject to the Canadian Federal Anti-Inflation Act which provides for the restraint of dividends in Canada. Under the legislation the Company is restricted in the payment of dividends during the period ended October 13, 1978 to a maximum amount of $2,661,000 based on its 1976 earnings.

7. STATUTORY INFORMATION

Directors and senior officers (including the five highest paid employees) of the Company received remuneration of $370,000 during the year ended October 31, 1977.

SIEBENS OIL & GAS LTD.
AND SUBSIDIARY COMPANIES

Five Year Summary

	1977	1976	1975	1974	1973*
Financial (thousands of dollars except per share amounts)			(restated)		
Revenues					
Oil & Gas Sales	26,603	17,755	9,351	7,382	5,172
Investment	271	1,098	771	988	1,147
Other	305	8	587	313	64
Total	27,179	18,861	10,709	8,683	6,383
Cash Expenses					
Production	2,075	1,129	454	248	226
General & Administrative	1,033	752	412	366	435
Interest Expense	1,484	497	121	—	—
Income Taxes	(139)	288	586	176	1,417
Total	4,453	2,666	1,573	790	2,078
Other Expenses					
Depletion & Amortization	3,029	1,614	2,778	1,022	458
Depreciation	680	391	191	88	69
Deferred Income Taxes	4,638	3,544	1,205	2,830	533
Total	8,347	5,549	4,174	3,940	1,060
Net Earnings	14,379	10,646	4,962	3,953	3,244
Per Share	1.56	1.16	.54	.43	.36
Cash Flow	22,766	16,117	8,991	7,740	4,185
Per Share	2.47	1.75	.98	.84	.46
Balance Sheet Data					
Working Capital	(3,413)	(3,559)	(2,060)	6,180	8,254
Investments	12,514	12,883	13,154	4,948	3,802
Property, Plant & Equipment — Net	67,396	46,333	20,700	14,635	6,835
Deferred Income Taxes	13,466	8,828	4,640	3,491	661
Shareholders' Equity	52,132	37,753	27,107	22,253	18,224
Other Data					
Shares Outstanding (thousands of shares)	9,209	9,199	9,185	9,185	9,172
Number of Shareholders	1,267	1,430	1,597	1,539	1,430
Exploration & Development Expenditures					
Land Acquisition & Rentals	12,567	3,585	3,262	3,774	2,020
Geological & Geophysical	2,405	1,736	586	1,150	285
Dry Holes	1,550	3,149	1,067	2,215	348
Productive Drilling	7,275	6,897	3,306	1,260	612
Production Equipment	2,528	2,658	1,009	320	219
Total	26,325	18,025	9,230	8,719	3,484
Capital Assets of Acquired Companies — Net	—	7,508	—	—	825

Five Year Summary (Continued)

	1977	1976	1975	1974	1973*
Changes in Financial Position			(restated)		
Source of Funds					
Operations	22,766	16,117	8,991	7,740	4,185
Sale of P&NG Rights	1,560	250	479	—	201
Issue of Common Shares	—	—	—	76	1,651
Bank Loans	—	8,962	—	—	—
Investments	498	517	—	—	—
Gas production prepayments	2,302	—	—	—	—
Other	—	28	1,723	14	42
Total	27,126	25,874	11,193	7,830	6,079
Application of Funds					
Property, Plant & Equipment	26,325	18,025	9,261	8,750	4,404
Investments	—	—	10,009	1,154	—
Acquisition of Cavalier	—	7,508	—	—	—
Dividends of Pooled Subsidiary	—	—	—	—	2,987
Bank production loans	463	1,840	—	—	—
Reduction in minority interest	192	—	—	—	—
Total	26,980	27,373	19,270	9,904	7,391
Increase (Decrease) in Working Capital	146	(1,499)	(8,077)	(2,074)	(1,312)

*In 1973, the Company's year end was changed from August 31 to October 31. Therefore, 1973 represented 14 months.

	1977	1976	1975	1974	1973
Operations					
Production					
Daily Production — Barrels	3,286	3,134	3,160	3,542	1,555
— MCF	36,400	25,228	18,100	16,352	7,107
Reserves (proven and probable) (*)					
Oil (thousands of barrels)	12,024	11,929	12,436	13,053	13,020
NGL (thousands of barrels)	1,041	1,082	1,312	1,345	1,752
Gas (millions of cubic ft.)	333,000	265,352	181,510	131,410	125,560
Sulphur (long tons)	38,000	40,215	42,500	44,770	113,280
Land Holdings (thousands of acres)					
Canada					
Gross Acres	17,304	22,301	30,111	57,020	60,212
Net Acres	7,130	7,808	11,186	29,565	31,433
Royalty Acres	24,726	29,125	39,162	41,530	41,991
Hudson Bay Mineral Titles	2,571	2,583	2,970	3,726	4,599
Foreign					
Gross Acres	7,945	5,282	9,037	14,145	13,286
Net Acres	7,555	4,737	5,658	2,670	1,958
Royalty Acres	18	18	20	43	82

(*) Note Reserves reported are net after Crown and freehold royalties.

Siebens

OIL & GAS LTD.

Annual Report 1977

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